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International Court of Justice

H3211 - 0002

OFFICE OF CHIEF OF COUNSEL FOR WAR CRIMES

EVIDENCE DIVISION

Date : 22 July 1948

I certify that Document Number EC-434 was introduced into evidence as Exhibit Number USA-624 in the Trial by the International Military Tribunal of Hermann GOERING, et al, which commenced on 20 November 1945, and that the attached photostat is a true and correct copy of the original.

Fred Niebergall

Fred NIEBERGALL
Chief, Document
Control Branch.

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C E R T I F I C A T E

I hereby certify that the annexed document EC-434 No. USA-624 is a photostat of an original document submitted in evidence by the United States Prosecution under this number. The original document has been withdrawn in accordance with Rule 10 of the International Military Tribunal, and to the best of my knowledge and belief is to be held at the National Archives, Washington D.C. .

Nuremberg, 6 July 1948

Paul Joosten

PAUL A. JOOSTEN

General Secretary
International Military
Tribunal

Ec No 437
1

AFFIDAVIT OF EMIL PUHL.

I, Emil Puhl, make the following deposition under oath:

I was an official of the Reichsbank for over thirty years and a Director of the Reichsbank during the entire period of Dr. Schacht's presidency in the years 1933-1939.

The financial crisis that was precipitated by the application of the Oesterreichische Creditanstalt fur Handel und Gewerbe to the Austrian Government for assistance reached its climax in Germany in July of 1931. Stock exchanges were closed, most of the banks, with the exception of the Reichsbank suspended cash payments and a brief banking holiday was declared.

One of the principle causes of this financial crisis in Germany was the demand by foreign creditors for the repayment of their loans in foreign currencies which loans had been made to German financial, industrial and governmental organizations. To block this tremendous drain of Germany's gold and foreign exchange an emergency decree of about 15 July concentrated all foreign exchange reserves in the Reichsbank. These provisional measures brought about by this financial crisis marked a great change in the money and banking methods of Germany and in subsequent years these early controls were expanded and drastically tightened.

To provide relief, the Hoover Moratorium in July 1931 suspended German reparation payments for one year. To meet the problem of short-term indebtedness "stand-still" agreements were made with foreign creditors. These generally provided more lenient terms for the German debtor and created various methods of partial repayment through providing marks with limited uses, such as travel in Germany. These "stand-still" agreements were revised and extended from time to time.

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After Hitler came to power and after Schacht returned to the presidency of the Reichsbank, the problem of Germany's long and medium term indebtedness was met by the declaration of a transfer moratorium. By law, starting 1 July 1933, German debtors were compelled to make payments in Reichsmarks (instead of the foreign currency in which the debt might have been incurred) on all interests and amortization payments of foreign debts incurred before the July 1931 crisis to the Konversionskasse für Auslandsschulden which was under the supervision of the Reichsbank. The law was not applicable to debts for which "stand-still" agreements had been concluded, the Dawes loans, the Young loans, or other foreign loans for which special arrangements were made. It was left to the discretion of the Reichsbank to determine when (if ever) transfer into foreign currency should be made from the funds of the Konversionskasse. Immediate threats of retaliatory measures by foreign countries brought a partial payment of interest charges in foreign exchange and in "scrip" which were sold at a substantial discount. However, after 1 July 1934, a complete transfer moratorium was put into effect and no more foreign exchange transfers for payment of interest and amortization took place, as funding bonds were offered the foreign creditor as payment. This was an arrangement made by the Reichsbankdirektorium under the leadership of Schacht.

The devaluation of the currencies of other leading countries increased the difficulties of Germany's foreign trade position. Earlier the Bruening Government had decided not to devalue the RM because it felt itself bound to the international agreements on which the Germany currency was based and it was unwilling to violate these international agreements. These deflationary policies did not prove popular with the German people and the leadership of the German Government passed successively from Bruening to von Papen, to von Schleicher and to Hitler. von Papen

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and von Schleicher, who held office briefly, did not devalue the RM officially. Hitler too refused to devalue the RM officially through fear that such a move would cost him the support of the German people, who had a deadly fear of inflation and who believed that devaluation meant inflation.

von Papen, von Schleicher and Hitler created employment through public spending on autobahns and other public works. When the effect on employment of this public spending for public works had reached its peak the Hitler regime reintroduced German conscription and initiated an accelerated rearmament program which resulted in full employment and a business "boom". As a result of these activities, Germany's price level rose and this rise handicapped her exports. The German demand for imports increased sharply as the accelerated rearmament program got under way. The drop in exports, the urgent need for imports for rearmament and Germany's lack of foreign exchange reserves made it necessary for her to devise a method to pay for the needed imports.

Under the leadership of Schacht, increased use was made of the device of blocked accounts to provide marks, some of which could be used for partial payment of imports. These marks were sold at substantial discounts and the losses represented by these discounts were taken by the foreign creditors to whom these marks belonged.

These blocked mark balances were held by foreign creditors with German banks. Because they were blocked, their owners were unable to convert them into foreign currencies through normal channels. These blocked balances were frequently traded outside of Germany as special kinds of mark exchange and these different kinds of marks sold at varying discounts which at times exceeded 50%. Schacht as Minister of Economics influenced the rates on these various kinds of marks by decrees and regulations extending or narrowing the range of their use.

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Schacht in his dual capacity as president of the Reichsbank and Minister of Economics developed measures which he announced under the title of the "New Plan" to broaden the control overthe German economy. It provided totalitarian controls over devisen and commodities. The program under the "New Plan" put Germany's foreign trade largely on a barter basis. Schacht, by these measures, sought to restrict the demand for foreign exchange and to increase its supply. He was successful in restricting the demand for foreign exchange by various measures suspending the service on Germany's foreign indebtedness, by freezing other claims of foreigners on Germany, by a stringent system of import controls and by eliminating foreign travel and other unessential foreign expenditures.

To increase the available supply of foreign exchange, Schacht repeatedly requisitioned all existing foreign exchange reserves of German residents, required all foreign exchange arising out of current exports and other transactions to be sold to the Reichsbank and by developing new export markets. Exports were encouraged by direct subsidies and by accepting partial payment in German foreign bonds or in restricted marks which could be acquired by foreign importers at a substantial discount.

Schacht actively developed barter with foreign customers and "clearing agreements" with foreign nations. Under Schacht's leadership Germany was quite successful in developing her foreign trade by these methods in Latin America and in south-eastern Europe. He cleverly exploited Germany's bartering power in driving down import prices and raising export prices and, in some instances, securing credits from weaker countries which were subsequently used for imports from Germany.

The clearing agreements were primarily for the purpose of obtaining raw materials for armament and food and export industries.

Where clearing and payment agreements between Governments or central banks were not used, the foreign exporters were often

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paid in mark balances called Aski marks, which they had to sell to the importers of German goods in their country. These marks sold at a substantial discount. Up to the end of 1938 clearing and payment agreements with over 40 countries had been concluded by Germany, and German foreign trade was dominated by this system. The share in Germany's export trade of countries using these methods exceeded eighty per cent in 1938.

An elaborate organization was developed to supervise and control this system. The Reichsbank, the Deutsche Gold Discount-bank and Verrechnungskasse and the Reichswirtsschaftsminister were all involved in this supervision and control, and the last named operated through the Uberwachungsstellen (supervisory boards) and devisenstellen (foreign exchange control offices). The Reichsbank in addition to its monopoly in foreign exchange transactions carried out the "stand-still" agreements and administered the Konversionkasse and the Verechnungskasse (clearing bank). The heart of the system was the Reichs-wirtsschaftsminister and his agencies in the supervisory boards and the foreign exchange control offices. The supervisory boards issued licenses for imports and separate boards were set up for specific commodities or commodity groups. The boards were assisted by customs officials and thousands of officials were involved in providing the tight controls which were instituted under Schacht's leadership.

This control enabled the Reich to favour the import of raw materials for armament and to select raw materials for the export industries which could produce required foreign exchange.

I understand the English language.

Sworn to before me this seventh day of November 1945 at Frankfurt, Germany.

O-870114

1st Lt AC

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USA-624

DOCUMENT NO. EC-437
OFFICE OF U.S. CHIEF OF COUNSEL

AFFIDAVIT OF EMIL PUHL

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One of the principal causes of this financial crisis in Germany was the demand by foreign creditors for the repayment of their loans in foreign currencies which loans had been made to German financial, industrial and governmental organizations. To block this tremendous drain of Germany's gold and foreign exchange an emergency decree of about 15 July concentrated all foreign exchange reserves in the Reichsbank. These provisional measures brought about by this financial crisis marked a great change in the money and banking methods of Germany and in subsequent years these early controls were expanded and drastically tightened.

To provide relief, the Hoover Moratorium in July 1931 suspended German reparation payments for one year. To meet the problem of short-term indebtedness "stand-still" agreements were made with foreign creditors. These generally provided more lenient terms for the German debtor and created various methods of partial repayment through providing marks with limited uses, such as travel in Germany. These "stand-still" agreements were revised and extended from time to time.

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After Hitler came to power and after Schacht returned to the presidency of the Reichsbank, the problem of Germany's long and medium term indebtedness was met by the declaration of a transfer moratorium. By law, starting 1 July 1933, German debtors were compelled to make payments in Reichsmarks (instead of the foreign currency in which the debt might have been incurred) on all interests and amortization payments of foreign debts incurred before the July 1931 crisis to the Konversionskasse für Auslandsschulden which was under the supervision of the Reichsbank. The law was not applicable to debts for which "stand-still" agreements had been concluded, the Dawes loans, the Young loans, or other foreign loans for which special arrangements were made. It was left to the discretion of the Reichsbank to determine when (if ever) transfer into foreign currency should be made from the funds of the Konversionskasse. Immediate threats of retaliatory measures by foreign countries brought a partial payment of interest charges in foreign exchange and in "scrip" which were sold at a substantial discount. However, after 1 July 1934, a complete transfer moratorium was put into effect and no more foreign exchange transfers for payment of interest and amortization took place, as funding bonds were offered the foreign creditor as payment. This was an arrangement made by the Reichsbankdirektorium under the leadership of Schacht.

The devaluation of the currencies of other leading countries increased the difficulties of Germany's foreign trade position. Earlier the Bruening Government had decided not to devalue the RM because it felt itself bound to the international agreements on which the German currency was based, and it was unwilling to violate these international agreements. These deflationary policies did not prove popular with the German people and the leadership of the German Government passed successively from Bruening to von Papen, to von Schleicher and to Hitler. Von Papen

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and von Schleicher, who held office briefly, did not devalue the RM officially. Hitler too refused to devalue the RM officially through fear that such a move would cost him the support of the German people, who had a deadly fear of inflation and who believed that devaluation meant inflation.

Von Papen, von Schleicher and Hitler created employment through public spending on autobahns and other public works. When the effect on employment of this public spending for public works had reached its peak the Hitler regime reintroduced German conscription and initiated an accelerated rearmament program which resulted in full employment and a business "boom". As a result of these activities, Germany's price level rose and this rise handicapped her exports. The German demand for imports increased sharply as the accelerated rearmament program got under way. The drop in exports, the urgent need for imports for rearmament and Germany's lack of foreign exchange reserves made it necessary for her to devise a method to pay for the needed imports.

Under the leadership of Schacht, increased use was made of the device of blocked accounts to provide marks, some of which could be used for partial payment of imports. These marks were sold at substantial discounts and the losses represented by these discounts were taken by the foreign creditors to whom these marks belonged.

These blocked mark balances were held by foreign creditors with German banks. Because they were blocked, their owners were unable to convert them into foreign currencies through normal channels. These blocked balances were [illegible] outside of Germany as special kinds of mark exchange and these different kinds of marks sold at varying discounts which at times exceeded 50%. Schacht as Minister of Economics influenced the rates on these various kinds of marks by decrees and regulations extending or narrowing the range of their use.

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Schacht in his dual capacity as president of the Reichsbank and Minister of Economics developed measures which he announced under the title of the "New Plan" to broaden the control over the German economy. It provided totalitarian controls over devisen and commodities. The program under the "New Plan" put Germany's foreign trade largely on a barter basis. Schacht, by these measures, sought to restrict the demand for foreign exchange and to increase its supply. He was successful in restricting the demand for foreign exchange by various measures suspending the service on Germany's foreign indebtedness, by freezing other claims of foreigners on Germany, by a stringent system of import controls and by eliminating foreign travel and other unessential foreign expenditures.

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An elaborate organization was developed to supervise and control this system. The Reichsbank, the Deutsche Gold Discount-bank and Verrechnungskasse and the Reichswirtsschaftsminister were all involved in this supervision and control, and the last named operated through the Uberwachungsstellen (supervisory boards) and devisenstellen (foreign exchange control offices). The Reichbank in addition to its monopoly in foreign exchange transactions carried out the "stand-still" agreements and administered the Konversionkasse and the Verechnungskasse (clearing bank). The heart of the system was the Reichswirtsschaftsminister and his agencies in the supervisory boards and the foreign exchange control offices. The supervisory boards issued licenses for imports and separate boards were set up for specific commodities or commodity groups. The boards were assisted by customs officials and thousands of officials were involved in providing the tight controls which were instituted under Schacht's leadership.

This control enabled the Reich to favour the import of raw materials for armament and to select raw materials for the export industries which could produce required foreign exchange.

I understand the English language.

(Signed) Puhl

Sworn to before me this seventh day of November 1945 at Frankfurt, Germany.

(Signed) Edward A. Tenenbaum

0-870114
1st. Lt. AC.

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Filed Jan. 10, 1946
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EXHIBIT USA

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5. Pages